

SEMTECH CORP
Form 10-Q
December 07, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended October 28, 2007

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 1-6395

SEMTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
incorporation or organization)

95-2119684
(I.R.S. Employer
Identification No.)

200 Flynn Road, Camarillo, California, 93012-8790

(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (805) 498-2111

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

Number of shares of Common Stock, \$0.01 par value per share, outstanding at November 30, 2007: 64,224,697

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SEMTECH CORPORATION

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****SEMTECH CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(in thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Net sales	\$ 78,556	\$ 63,711	\$ 206,170	\$ 194,575
Cost of sales	35,695	29,188	93,066	86,778
Gross profit	42,861	34,523	113,104	107,797
Operating costs and expenses:				
Selling, general and administrative	17,764	19,952	53,888	52,588
Product development and engineering	11,206	9,628	31,792	30,519
Amortization of expense related to acquisition intangibles	276	276	827	916
Insurance related legal expenses	416	32	915	298
Total operating costs and expenses	29,662	29,888	87,422	84,321
Operating income	13,199	4,635	25,682	23,476
Interest and other income, net	3,055	3,509	12,312	9,592
Income before taxes	16,254	8,144	37,994	33,068
Provision for taxes	284	1,798	5,071	6,535
Net income	\$ 15,970	\$ 6,346	\$ 32,923	\$ 26,533
Earnings per share:				
Basic	\$ 0.25	\$ 0.09	\$ 0.49	\$ 0.37
Diluted	\$ 0.24	\$ 0.09	\$ 0.47	\$ 0.36
Weighted-average number of shares:				
Basic	63,726	72,298	67,692	72,388
Diluted	66,347	73,718	69,612	74,095

See accompanying notes. The accompanying notes are an integral part of these statements.

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SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share data)

	October 28, 2007 (Unaudited)	January 28 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 220,908	\$ 162,674
Temporary investments	35,675	125,979
Receivables, less allowances	31,821	25,588
Inventories	24,219	20,493
Deferred income taxes	2,732	3,495
Assets held for sale	65	8,222
Other current assets	8,888	9,476
Total current assets	324,308	355,927
Property, plant and equipment, net	35,055	40,573
Investments, maturities in excess of 1 year	9,253	49,827
Deferred income taxes	35,100	28,190
Goodwill	32,541	32,687
Other intangibles, net	3,457	4,284
Other assets	7,497	10,166
Total Assets	\$ 447,211	\$ 521,654
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 14,331	\$ 9,909
Accrued liabilities	17,188	14,635
Income taxes payable	1,497	1,974
Deferred revenue	1,452	2,151
Deferred income taxes	1,483	1,500
Other current liabilities		315
Total current liabilities	35,951	30,484
Deferred income taxes	2,522	2,539
Accrued taxes	5,266	
Other long-term liabilities	7,682	7,450
Stockholders' equity:		
Common stock, \$0.01 par value, 250,000,000 shares authorized, 78,076,504 issued and 64,141,057 outstanding on October 28, 2007 and 77,061,426 issued and 72,304,877 outstanding on January 28, 2007	784	774
Treasury stock, at cost, 13,935,447 shares as of October 28, 2007 and 4,756,549 shares as of January 28, 2007	(223,658)	(85,955)
Additional paid-in capital	336,935	315,972
Retained earnings	281,366	250,517
Accumulated other comprehensive income (loss)	363	(127)
Total stockholders' equity	395,790	481,181
Total Liabilities and Stockholders' Equity	\$ 447,211	\$ 521,654

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See accompanying notes. The accompanying notes are an integral part of these statements.

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SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended	
	October 28, 2007	October 29, 2006
Cash flows from operating activities:		
Net income	\$ 32,923	\$ 26,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,021	8,711
Deferred income taxes	(8,032)	(2,581)
Stock-based compensation	10,593	12,212
Tax benefit on stock based compensation	7,321	7,041
Excess tax benefits	(4,699)	(1,529)
(Gain) Loss on disposition of property, plant and equipment	(1,519)	85
Changes in assets and liabilities:		
Accounts receivable	(6,232)	1,380
Inventories	(3,726)	(1,657)
Other assets	3,255	1,677
Accounts payable and accrued liabilities	6,660	3,099
Deferred revenue	(699)	698
Income taxes payable	(478)	1,155
Other liabilities	5,076	1,644
Other		75
Net cash provided by operating activities	48,464	58,543
Cash flows from investing activities:		
Purchase of available-for-sale investments	(111,300)	(147,092)
Proceeds from sales and maturities of available-for-sale investments	242,669	143,792
Proceeds on sale of assets	10,050	1,197
Purchase of property, plant and equipment	(2,049)	(2,343)
Net cash provided by (used in) investing activities	139,370	(4,446)
Cash flows from financing activities:		
Excess tax benefit received on stock options	4,699	1,529
Proceeds from exercise of stock options	8,141	2,240
Repurchase of outstanding common stock	(150,092)	(14,240)
Reissuance of treasury stock	7,652	906
Net cash used in financing activities	(129,600)	(9,565)
Effect of exchange rate changes on cash and cash equivalents		2
Net increase (decrease) in cash and cash equivalents	58,234	44,534
Cash and cash equivalents at beginning of period	162,674	65,520
Cash and cash equivalents at end of period	\$ 220,908	\$ 110,054

See accompanying notes. The accompanying notes are an integral part of these statements.

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SEMTECH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying interim consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the included disclosures are adequate to make the information presented not misleading. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. Certain amounts for prior periods have been reclassified to conform to the current presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounting estimates requiring management's most significant and subjective judgments include:

The recognition and measurement of current and deferred income tax assets and liabilities;

The valuation of inventory; and

The valuation and recognition of share-based compensation

In the opinion of the Company, these unaudited statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, the financial position of Semtech Corporation and its subsidiaries for the interim periods presented. The results reported in these consolidated condensed financial statements should not be regarded as necessarily indicative of results that may be expected for any subsequent period or for the entire year.

Note 2: Fiscal Year

The Company reports on the basis of 52 and 53 week periods and ends its fiscal year on the last Sunday in January. The other quarters end on the last Sunday of April, July, and October. All quarters consist of 13 weeks except for one 14-week quarter in 53-week years. The third quarter and first nine months of fiscal years 2008 and 2007 each consisted of 13 weeks and 39 weeks, respectively.

Note 3: Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. The measurement and disclosure requirements are effective for the Company beginning in fiscal year 2009. The Company is currently evaluating the impact of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires unrealized gains and losses to be reported in earnings for items measured using the fair value option. SFAS No. 159 is effective for the Company beginning in fiscal year 2009. The Company is currently evaluating the impact of SFAS No. 159.

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There have been no significant changes to the Company's critical accounting policies during the quarter ended October 28, 2007.

Note 5: Comprehensive Income

The components of comprehensive income, net of tax, were as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Net income	\$ 15,970	\$ 6,346	\$ 32,923	\$ 26,533
Change in net unrealized holding gain (loss) on available-for-sale investments	129	320	490	681
Gain (loss) for translation adjustment		(15)		2
Total comprehensive income	\$ 16,099	\$ 6,651	\$ 33,413	\$ 27,216

Note 6: Earnings Per Share

The computation of basic and diluted earnings per common share was as follows:

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Net income	\$ 15,970	\$ 6,346	\$ 32,923	\$ 26,533
Weighted average common shares outstanding - basic	63,726	72,298	67,692	72,388
Dilutive effect of employee equity incentive plans	1,264	1,420	1,192	1,707
Dilutive effect of accelerated stock buyback	1,357		728	
Weighted average common shares outstanding - diluted	66,347	73,718	69,612	74,095
Basic earnings per common share	\$ 0.25	\$ 0.09	\$ 0.49	\$ 0.37
Diluted earnings per common share	\$ 0.24	\$ 0.09	\$ 0.47	\$ 0.36

Basic earnings per common share are computed using the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share incorporate the incremental shares issuable, calculated using the treasury stock method, upon the assumed exercise of stock options and the vesting of restricted stock. Also included is the impact of shares issuable in settlement of the accelerated stock buyback. See Notes 8 and 17. The weighted-average number of shares used to compute basic earnings per share in the third quarters of fiscal years 2008 and 2007 was approximately 63.7 million and 72.3 million, respectively. The weighted-average number of shares used to compute diluted earnings per share in the third quarters of fiscal years 2008 and 2007 was approximately 66.3 million and 73.7 million, respectively. The weighted-average number of shares used to compute basic earnings per share in the first nine months of fiscal years 2008 and 2007 was approximately 67.7 million and 72.4 million, respectively. The weighted-average number of shares used to compute diluted earnings per share in the first nine months of fiscal years 2008 and 2007 was approximately 69.6 million and 74.1 million, respectively.

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Options to purchase approximately 6.0 million shares and 10.2 million shares, respectively, were not included in the computation of the third quarters of fiscal years 2008 and 2007 diluted net income per share because such options were considered anti-dilutive. Options to purchase approximately 10.2 million shares and 8.0 million shares, respectively, were not included in the computation of the first nine months of fiscal years 2008 and 2007 diluted net income per share because such options were considered anti-dilutive.

Note 7: Stock Based Compensation

Overview. The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS 123R). SFAS 123R establishes generally accepted accounting principles for stock-based awards exchanged for employee services.

Share-based Payment Arrangements. The Company has various equity award plans (Plans) that provide for granting stock based awards to employees and non-employee directors of the Company. The Plans provide for the granting of several available forms of stock compensation. As of October 28, 2007, the Company has granted stock option awards (Options), restricted stock awards (RSA), and restricted stock unit awards (RSU) under the Plans and has also issued some stock-based compensation outside of any plan, including options and restricted stock awards issued as inducements to join the Company.

Grant Date Fair Values and Underlying Assumptions; Contractual Terms. For awards classified as equity, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's or director's requisite service period. For awards classified as liabilities, stock based compensation cost is measured at fair value at each reporting date until the date of settlement, and is recognized as an expense over the employee or director's requisite service period.

The Company uses the Black-Scholes pricing model to value Options. Expected volatilities are based on historical volatility using daily and monthly stock price observations. For option grants made after January 30, 2006, the Company uses an expected life equal to the midpoint between the vesting date and the date of contractual expiration of the options, as permitted by the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin 107. For option grants issued before January 30, 2006, the Company had used a consistent 5-year expected life assumption. The Company has not historically paid a cash dividend and the Board of Directors has not indicated an intent to declare a cash dividend in the foreseeable future. Accordingly, a dividend yield of zero has been assumed for purposes of estimating the fair value of Options. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant. The estimated fair value of the Options is amortized to expense using the straight-line method over the vesting period.

Assumptions in Determining Fair Value of Options

	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Expected lives, in years	5.0	None issued	4.0 - 5.0	4.4 - 4.9
Estimated volatility	49%	None issued	49% - 59%	53% - 59%
Dividend yield		None issued		
Risk-free interest rate	4.3%	None issued	4.3% - 4.9%	4.6% - 4.9%

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The estimated fair value of restricted stock (RSA and RSU) awards was calculated based on the market price of the Company's common stock on the date of grant. Some RSU awards made during fiscal year 2008 are classified as liabilities rather than equity. For awards classified as liabilities, the value of these awards was re-measured on October 28, 2007.

Financial Statement Effects and Presentation. The following table shows total pre-tax, stock-based compensation expense included in the Consolidated Condensed Statements of Income for the quarter and nine months ended October 28, 2007 and October 29, 2006, respectively,:

Allocation of Stock-based Compensation

(in thousands)

	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Cost of sales	\$ 379	\$ 351	\$ 871	\$ 857
Selling, general and administrative	2,627	2,470	6,705	7,892
Product development and engineering	994	942	2,848	3,202
Stock-based compensation, pre-tax	\$ 4,000	\$ 3,763	\$ 10,424	\$ 11,951
Net change in stock-based compensation capitalized into inventory	\$ (37)	\$ (22)	\$ 169	\$ 261
Total stock-based compensation	\$ 3,963	\$ 3,741	\$ 10,593	\$ 12,212

Impact of Stock-based Compensation

(in thousands)

	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Stock-based compensation	\$ 4,000	\$ 3,763	\$ 10,424	\$ 11,951
Associated tax effect	(1,174)	(1,081)	(3,001)	(3,425)
Stock-based compensation, net of tax	\$ 2,826	\$ 2,682	\$ 7,423	\$ 8,526
Effect on earnings per share -				
Basic	\$ 0.04	\$ 0.04	\$ 0.11	\$ 0.12
Diluted	\$ 0.04	\$ 0.04	\$ 0.11	\$ 0.12
Weighted average number of shares -				
Basic	63,726	72,298	67,692	72,388
Diluted	66,347	73,718	69,612	74,095

For the three month periods ended October 28, 2007 and October 29, 2006, the tax benefit realized from option exercise activity was \$1.8 million and \$0.0 million, respectively. The tax benefit realized from option exercise activity for the nine month periods ended October 28, 2007 and October 29, 2006 was \$4.7 million and \$1.5 million, respectively.

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Stock Option Awards. The Company has historically granted stock option awards to both employees and non-employee directors. The grant date for these awards is equal to the measurement date. These awards were valued as of the measurement date and are amortized over the requisite vesting period. A summary of the activity for stock option awards in the three months and nine months ended October 28, 2007 is presented below:

Information regarding outstanding stock option awards

	Number of Shares (in thousands)	Weighted Average Exercise Price (per share)	Aggregate Intrinsic Value (1)	Aggregate Unrecognized Compensation
January 29, 2007	13,393			
Grants		\$		
Exercises	(395)		\$ 2,915.2	
Cancellations and forfeitures	(2,814)			
April 29, 2007	10,184			\$ 16,683.1
Grants	2,516	\$ 16.16		
Exercises	(586)		\$ 4,685.1	
Cancellations and forfeitures	(313)			
July 29, 2007	11,801			\$ 32,180.5
Grants	137	\$ 15.90		
Exercises	(665)		\$ 5,139.8	
Cancellations and forfeitures	(166)			
October 28, 2007	11,107			\$ 26,307.8

(1) Represents the difference between the exercise price and the value of Semtech stock at the time of exercise.

Performance Unit Awards. The Company grants performance vested RSU's to select employees. These awards have a performance condition in addition to a service condition. The performance condition relates generally to the Company's revenue and operating income measured against internal goals. Under the terms of these awards, which were granted in the second quarter of fiscal year 2008, assuming the highest level of performance with no cancellations due to forfeitures, the maximum number of units that can be earned in the aggregate is 350,000. In this scenario, the maximum number of shares that could be issued thereunder would be 175,000; additionally, the Company would have a liability equal to the value of 175,000 shares on the settlement date, which would be settled in cash. At October 28, 2007, the number of these units expected to vest, which includes a factor for forfeitures and a current assessment of the likelihood of meeting the performance measures, was approximately 143,260. The following table summarizes performance unit award activity during the second and third quarters of fiscal year 2008:

Information regarding outstanding performance unit awards

	Total Units	Subject to Share Settlement Units	Subject to Cash Settlement Units	Recorded Liability	Weighted Average Grant Date Fair Value (per share)	Aggregate Unrecognized Compensation Cost
(in thousands, except for per share price)						

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April 29, 2007						\$	
Granted	175	88	87		\$	16.14	
Exercised							
Cancelled/Forfeited							
Change in Liability						107.1	
July 29, 2007	175	88	87	\$	107.1		\$ 2,699.2
Granted						\$	
Exercised							
Cancelled/Forfeited							
Change in Liability						64.2	
October 28, 2007	175	88	87	\$	171.3		\$ 2,675.2

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Restricted Stock Awards. In the third quarter of fiscal year 2008, the Company granted restricted stock awards to select employees. The grant date for these awards is equal to the measurement date. These awards are valued as of the measurement date and amortized over the requisite vesting period. A summary of the activity for restricted stock awards in the three months and nine months ended October 28, 2007 is presented below:

Information regarding outstanding restricted stock awards

(in thousands, except per share price)	Number of Shares	Weighted Average Grant Date Fair Value (per share)	Aggregate Intrinsic Value (1)	Aggregate Unrecognized Compensation
January 29, 2007	100			
Granted				
Vested	(25)		332	
Forfeited				
April 29, 2007	75			\$ 1,313.5
Granted	599	\$ 16.14		
Vested	(6)		106	
Forfeited	(2)			
July 29, 2007	666			\$ 10,396.8
Granted	60	\$ 15.90		
Vested	(6)		119	
Forfeited				
October 28, 2007	720			\$ 9,006.4

(1) Represents the value of Semtech stock on the date that the restricted stock units vested.

Stock Unit Awards. In the third quarter of fiscal year 2008, the Company issued, for the first time, stock unit awards to non-employee directors. These RSU s are accounted for as liabilities because they are cash settled. The value of these awards is remeasured at each reporting period until settlement and the pro-rata vested portion of the award is recognized as a liability. The following table summarizes stock unit awards activity during the second and third quarters of fiscal year 2008:

Information regarding outstanding stock unit awards

(in thousands, except per share price)	Number of Unites	Recorded Liability	Weighted Average Grant Date Fair Value (per share)	Aggregate Unrecognized Compensation Cost
April 29, 2007				
Granted	32		\$ 17.61	
Vested				

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Forfeited				
Change in Liability		44.5		
July 29, 2007	32	44.5	\$	515.5
Granted				
Vested				
Forfeited				
Change in Liability		127.8		
October 28, 2007	32	172.3	\$	375.6

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Note 8: Stock Repurchase Program and Accelerated Stock Buyback Program; Treasury Shares

In the first quarter of fiscal year 2005, the Company announced that its Board of Directors approved a program under which the Company could repurchase up to \$50.0 million of its common stock. In the second quarter of fiscal year 2006, the Company announced that it had used up the initial authorization and that its Board of Directors had approved increasing the program by an additional \$50.0 million. In the second quarter of fiscal year 2007, the Company announced that its Board of Directors again had authorized increasing the existing buyback program by an additional \$50.0 million. Thus, the total authorized under the program is \$150 million.

As of October 28, 2007, the Company had repurchased 5.4 million shares of its common stock at a cost of \$99.7 million under this program. Of the repurchased shares, 1.3 million have been reissued as a result of stock option exercises; the remainder is being held as treasury shares.

On May 30, 2007, the Company announced that its Board of Directors approved an accelerated stock repurchase program and entered into an accelerated stock repurchase agreement (the Agreement) with Goldman, Sachs & Co (Goldman Sachs). The Agreement, supplemental to the Company's existing stock repurchase program, provides for the repurchase of \$150 million of the Company's outstanding common stock, subject to certain purchase price adjustments.

Goldman Sachs delivered 9,836,066 shares to the Company in June 2007 and is expected to cover the borrowed shares by making open market purchases of the Company's common stock during the course of the program. The final purchase price will be based on the volume weighted average share price of the Company's common stock (the VWAP price) from the end of an initial period (which lasted approximately one month) to the end of the program. The program will end on any day of Goldman Sachs choosing starting approximately four months and ending approximately thirteen months after the date the agreement was signed. At program termination, the Company is expected to either receive from or pay to Goldman Sachs a purchase price adjustment based on such VWAP price, which amount may be paid in cash or shares. See Note 17 regarding completion of this program.

Approximately one third of the repurchased shares are subject to a collar provision that establishes the minimum and maximum purchase price adjustments that the Company may receive or pay at program termination in respect of the collared shares. These minimum and maximum adjustments will be based on the VWAP price during the initial period. The remaining approximately two-thirds of the repurchased shares are not subject to the collar provision.

The initial purchase price was funded with the Company's existing domestic cash. The Company currently intends to hold the repurchased shares as treasury stock. The outstanding shares used to calculate earnings per share were immediately reduced by the number of shares repurchased. Some of the treasury shares are expected to be reissued in the future as a result of stock option exercises.

Note 9: Investments

Temporary and long-term investments consist of government, bank and corporate obligations. Temporary investments mature within twelve months of the balance sheet date. Long-term investments have maturities in excess of one year from the date of the balance sheet. As of October 28, 2007, the Company had \$35.7 million of temporary investments and \$9.3 million of long-term investments. As of January 28, 2007, the Company had \$126.0 million of temporary investments and \$49.8 million of long-term investments. Certain short-term, highly liquid investments, namely money-market accounts are accounted for as cash and cash equivalents.

The Company classifies its investments as available for sale because it expects to possibly sell some securities prior to maturity. The Company's investments are subject to market risk, primarily interest rate and credit risk. The Company's investments are managed by a limited number of outside professional managers subject to investment guidelines set by the Company. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting the Company's investments to high quality debt instruments with relatively short-term maturities.

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As a result of changes in the market value of investments, the Company included \$129,000 and \$320,000 of unrealized gain, net of tax, in comprehensive income for the third quarters of fiscal year 2008 and 2007, respectively. The tax associated with these comprehensive income items were expense of \$85,000 and \$214,000 in the third quarter of fiscal years 2008 and 2007, respectively. The Company included \$490,000 and \$681,000 of unrealized gain, net of tax, in comprehensive income for the first nine months of fiscal years 2008 and 2007, respectively. The tax associated with these comprehensive income items were expense of \$331,000 and \$456,000 in the first nine months of fiscal year 2008 and 2007, respectively.

Temporary and long-term investments consist of the following security types, stated at fair market value and cost basis with the difference between these amounts booked as part of comprehensive income:

Investments (in thousands)

	October 28, 2007			January 28, 2007		
	Market Value	Cost Basis	Unrealized Loss	Market Value	Cost Basis	Unrealized Loss
U.S. government issues	\$ 11,069	\$ 11,200	\$ (131)	\$ 31,795	\$ 32,200	\$ (405)
State and local government issues				15,100	15,100	
Corporate issues	33,859	33,877	(18)	128,911	129,474	(563)
Investments	\$ 44,928	\$ 45,077	\$ (149)	\$ 175,806	\$ 176,774	\$ (968)

The Company regularly invests in auction rate securities, which within the fixed income market are very common and generally considered highly liquid. The auction rate securities the Company holds reset their coupon rate either monthly or quarterly, although the contractual maturity of auction rate securities is usually several years in the future. For purposes of reporting these securities, the Company has used the contractual maturity date, not the date of the next reset.

Investment maturities (in thousands)

	October 28, 2007		January 28, 2007	
	Market Value	Cost Basis	Market Value	Cost Basis
Within 1 year	\$ 35,675	\$ 35,797	\$ 125,979	\$ 126,678
After 1 year through 5 years	9,253	9,280	49,827	50,096
	\$ 44,928	\$ 45,077	\$ 175,806	\$ 176,774

Investments and cash and cash equivalents generated interest income of \$3.3 million and \$3.5 million in the third quarters of fiscal years 2008 and 2007, respectively and interest income of \$10.9 million and \$9.3 million in the first nine months of fiscal years 2008 and 2007, respectively.

Note 10: Inventories

Inventories (in thousands):

	October 28 2007	January 28 2007
Raw materials	\$ 1,152	\$ 2,723
Work in process	15,909	11,410
Finished goods	7,158	6,360

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In the fourth quarter of fiscal year 2007, the Company entered into a contract to sell a parcel of land in San Diego, California that was purchased in fiscal year 2001 and the Company reclassified the net book value of the land to Held for Sale status in its financial statements, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). The sale was completed in the first quarter of fiscal year 2008 resulting in a net gain of approximately \$1.3 million. The gain on the sale is classified in the line item Interest and other income, net in the Consolidated Condensed Statement of Income for the nine months ended October 28, 2007.

In the third quarter of fiscal year 2008, the Company made plans to dispose of underutilized equipment. The Company expects that the final sale and disposal of the assets will be completed in the fourth quarter of fiscal year 2008. In connection with the plan of disposal, the Company determined that the carrying values of some of the underlying assets exceeded their fair values. Consequently, the Company recorded an impairment loss of approximately \$9,000, which represents the excess of the carrying values of the assets over their fair values, less cost to sell. The impairment loss was recorded within the Interest and other income section of the Statement of Income for the quarter ended October 28, 2007. The carrying value of these assets is separately presented in the Balance Sheet under the caption Assets held for sale. No depreciation is recorded for assets classified as held for sale.

Note 12: Intangible Assets

The goodwill associated with the purchase of XEMICS, the subsidiary now known as Semtech Neuchatel, was \$32.5 million as of October 28, 2007 and \$32.7 million as of January 28, 2007, an insignificant amount of which is expected to be deductible for tax purposes. Presented below is a summary of the impact of changes to goodwill since the date of acquisition.

(in thousands)	Beginning balance on date of acquisition	Adjustments to date	Balance as of October 28, 2007
Goodwill	\$ 32,941	\$ (400)	\$ 32,541

There was \$276,000 of amortization expense in both the third quarter of fiscal years 2008 and 2007, and \$827,000 and \$916,000 of amortization expense in the first nine months of fiscal years 2008 and 2007, respectively, for amortization of intangible items associated with the acquisition of XEMICS. The remaining \$3.5 million balance of other intangible items, as detailed below, will be amortized over future periods. No significant residual value is expected. There are no tax-related benefits from amortization expense related to acquisition intangibles.

Other intangibles (in thousands)

	Beginning balance on date of acquisition	Amortization to date	Balance as of October 28, 2007	Remaining period to be amortized
Core technologies	6,000	(2,545)	3,455	44 months
Customer relationships	30	(28)	2	8 months
Other Intangibles	\$ 6,030	\$ (2,573)	\$ 3,457	

Note 13: Commitments and ContingenciesDeferred Compensation Plan

The Company maintains a deferred compensation plan for certain officers and key executives that allows participants to defer a portion of their compensation for future distribution at various times permitted by the plan. A portion of the employee's deferral is matched by the Company, with the match subject to a vesting

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period. Compensation expense under this plan for the third quarter of fiscal years 2008 and 2007 totaled approximately \$137,000 and \$161,000, respectively. Compensation expenses under this plan, net of forfeitures, for the first nine months of fiscal year 2008 and 2007 totaled \$207,000 and \$167,000, respectively. The Company received a credit of approximately \$2,000 and \$33,000 in the third quarter of fiscal year 2008 and 2007 as a result of previously accrued compensation expense under the plan that was forfeited as a result of termination of certain plan participants. The Company received a credit of approximately \$206,000 and \$366,000 in the nine months of fiscal year 2008 and 2007 as a result of previously accrued compensation expense under the plan that was forfeited as a result of termination of certain plan participants.

The Company's liability for deferred compensation totaled \$7.0 million as of October 28, 2007 and \$6.6 million as of January 28, 2007, and is included in other long-term liabilities. The Company has purchased whole life insurance on the lives of certain current and former deferred compensation plan participants. This Company-owned life insurance is intended to cover a majority of the costs of the deferred compensation plan. The cash surrender value of the company-owned life insurance was \$7.1 million as of October 28, 2007 and \$6.4 million as of January 28, 2007, and is included in other assets.

Legal Matters

From time to time in the ordinary course of its business, the Company is involved in various claims, litigation, and other legal actions that are normal to the nature of its business, including with respect to intellectual property, contract, product liability, employment, and environmental matters.

The Company records any amounts recovered in these matters when collection is certain. Liabilities for claims against the Company are accrued when it is probable that a liability has been incurred and the amount can reasonably be estimated. Any amounts recorded are based on periodic reviews by outside counsel, in-house counsel and management and are adjusted as additional information becomes available or assessments change.

While some insurance coverage is maintained for such matters, there can be no assurance that the Company has a sufficient amount of insurance coverage, that asserted claims will be within the scope of coverage of the insurance, or that the Company will have sufficient resources to satisfy any amount due not covered by insurance.

Management is of the opinion that the ultimate resolution of such matters now pending will not, individually or in the aggregate have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows. However, the outcome of legal proceedings cannot be predicted with any degree of certainty.

Some of the Company's more significant pending legal matters are discussed below:

Government Inquiries

In 2006, the Company received a letter from the SEC requesting that it voluntarily provide information regarding stock options granted since 1997 as part of an informal inquiry. At about the same time, the Company received a Grand Jury subpoena from the United States District Court, Southern District of New York, requesting documents relating to the Company's stock option practices since 1996. The Company responded to these requests in a timely manner and intends to continue to fully cooperate in these inquiries. The filing of our restated financial statements in March 2007 did not resolve these matters.

In the event that either or both of these investigations leads to action against any of our current or former directors, officers, or employees, or the Company itself, the trading price of the Company's common stock may be adversely impacted. If the Company is subject to adverse findings in either of these matters, it could be required to pay damages or penalties or have other remedies imposed upon it which could have a material adverse effect on its business, financial condition, results of operations and cash flows. In addition, if either or both of these investigations continue for a prolonged period of time, they may have the same impact regardless of the ultimate outcome.

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Shareholder Derivative Lawsuits

The Company has been served with five purported shareholder derivative lawsuits making various allegations with respect to stock option improprieties and financial reporting. The Company is named solely as a nominal defendant against whom the plaintiffs seek no monetary recovery. These lawsuits name various current and former directors, officers, and executives as individual defendants from whom various forms of monetary damages are sought.

Two of the purported derivative lawsuits, with virtually identical complaints, were filed in the Superior Court of the State of California in 2006 and consolidated into one case (State Derivative Litigation). The State Derivative Litigation has been stayed in favor of the duplicative Federal Derivative Litigation discussed below.

Three of the purported shareholder derivative lawsuits were filed in the U.S. District Court for the Central District of California in 2006 and consolidated into one case (Federal Derivative Litigation).

These complaints include claims for violations of federal securities laws, breach of fiduciary duty, abuse of control, corporate waste, unjust enrichment, gross mismanagement, insider selling and misappropriation of information, and violations of the California Corporations Code. Not all claims are included in each case.

The relief sought varies among the cases. Generally, the plaintiffs are seeking an accounting, monetary damages and pre-judgment interest from the individual defendants; equitable relief; costs, fees, and expenses; orders directing the Company with respect to certain corporate governance actions, and such other relief as the Court deems just and proper.

A Special Litigation Committee of the Board has determined it is not in the interests of shareholders or the Company to pursue the claims in the cases described above and that the Company should seek to have these suits terminated. The Company has filed a motion to terminate the Federal Derivative Litigation and is also participating in mediation in an effort to resolve these cases.

The Company is unable to predict the outcome of these matters at this time.

Class Action Lawsuits

In August 2007, a purported class action lawsuit was filed against the Company and certain current and former officers on behalf of persons who purchased or acquired Semtech securities from September 11, 2002 until July 19, 2006. The case, filed in Federal Court in the Southern District of New York, alleges violations of Federal securities laws in connection with the Company's past stock option practices. Plaintiffs demand a jury trial but make no specific monetary demand. The Company has not yet responded to the complaint. A very similar lawsuit, filed in October 2007 by another plaintiff, has not been served.

Settled Customer Dispute and Related Insurance Matters

In fiscal years 2004 and 2005, the Company paid a customer \$12 million to resolve a dispute regarding a product. The Company filed suit against three of its insurance companies seeking coverage for the full value of the settlement.

Settlement was reached with two of the insurance companies in fiscal year 2006. A \$3.0 million gain recorded for these insurance settlements in fiscal year 2006 was offset by \$2.9 million of related legal expenses incurred in that year. For additional information regarding the insurance settlements, see the Form 8-K's filed by the Company on July 7, 2005 and July 19, 2005 and Exhibit 10.1 to the Form 10-Q filed by the Company on September 9, 2005.

Settlement was reached with the remaining insurance company in November 2007. Under the final settlement, Semtech will receive \$6,500,000 in two installments in fiscal year 2009. No gain from this settlement is reflected in the Consolidated Statement of Income for the nine months ended October 28, 2007. For additional information, see the Form 8-K filed by the Company on November 27, 2007.

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Legal expenses from the inception of the litigation through the third quarter of fiscal year 2008 total approximately \$5 million. On a net basis, the Company has recovered approximately \$4.5 million of the \$12 million paid to the customer.

Environmental Matters

In 2001, the Company was notified by the California Department of Toxic Substances Control (State) that it may have liability associated with the clean-up of the one-third acre Davis Chemical Company site in Los Angeles, California. The Company has been included in the clean-up program because it was one of the companies that used the Davis Chemical Company site for waste recycling and/or disposal between 1949 and 1990. The Company has joined with other potentially responsible parties in an effort to resolve this matter with the State. The group has entered into a Consent Order with the State that requires the group to perform a soils investigation at the site and submit a draft remediation plan. In March 2007, the State approved the group s draft remediation plan, which has been published for public comment before the final remediation plan is submitted. The State has the right to require the removal of contaminated soils and to expand the scope of work to include further investigation of groundwater contamination. The Consent Order does not require the group to remediate the site. To date, the Company s share of the group s expenses has not been material and has been expensed. At this time there is not a specific proposal or budget with respect to any additional studies or the clean-up of the site. Thus, no reserve has been established for this matter.

Certain contaminants have been found in the groundwater at and near the facility in Newbury Park, California that the Company leased for approximately forty years before relocating to its current facility in 2002. Monitoring results over a number of years indicate that contaminants are from adjacent facilities. It is currently not possible to determine the ultimate amount of possible future clean-up costs, if any, that may be required of the Company for this site. There are no claims pending with respect to environmental matters at the Newbury Park site. Accordingly, no reserve for clean up has been provided at this time.

Intellectual Property Disputes and Other Matters

From time to time, the Company is approached by persons seeking payment based on the Company s alleged use of their intellectual property. The Company is also periodically named as a defendant in lawsuits involving intellectual property and other matters that are routine to the nature of its business. Management is of the opinion that the ultimate resolution of all such pending matters will not have a material adverse effect on the accompanying consolidated condensed financial statements.

Stockholder Protection Agreement

Effective June 11, 1998, the Company s board of directors approved a Stockholder Protection Agreement to issue a Right for each share of common stock outstanding on July 31, 1998 and each share issued thereafter (subject to certain limitations). These Rights, if not cancelled by the Board of Directors, can be exercised into a certain number of Series X Junior Participating Preferred Stock after a person or group of affiliated persons acquire 25% or more of the Company s common stock and subsequently allow the holder to receive certain additional Company or acquirer common stock if the Company is acquired in a hostile takeover. The Rights expire on July 30, 2008.

Product Warranties

The Company s general warranty policy provides for repair or replacement of defective parts. In some cases a refund of the purchase price is offered. In certain instances the Company has agreed to other warranty terms, including some indemnification provisions.

The product warranty accrual, which is included in cost of sales, reflects the Company s best estimate of probable liability under its product warranties. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical experience.

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The following table details the change in the product warranty accrual.

Product Warranty Accrual (in thousands)

	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Beginning balance	\$ 50	\$ 50	\$ 50	\$ 50
Payments made				
Net expense accrued				
Ending balance	\$ 50	\$ 50	\$ 50	\$ 50

If there is a substantial increase in the rate of customer claims, if the Company's estimates of probable losses relating to identified warranty exposures prove inaccurate, or its efforts to contractually limit liability prove inadequate, the Company may record a charge against future cost of sales. Over at least the last decade, warranty expense has been immaterial to the financial statements.

Indemnification

In the normal course of its business, the Company indemnifies other parties, including customers, distributors, and lessors, with respect to certain matters. These obligations typically arise under contracts under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of representations and covenants related to certain matters, such as acts or omissions of Company employees, infringement of third-party intellectual property rights, and certain environmental matters. Over at least the last decade, the Company has not incurred any significant expense as a result of agreements of this type. The Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. Accordingly, the Company has not accrued any amounts for such indemnification obligations in the first nine months of fiscal year 2008.

The Company has also entered into agreements with its current and former directors and some current and former Company executives indemnifying them against certain liabilities incurred in connection with their duties. The Company's Certificate of Incorporation and Bylaws contain similar indemnification obligations with respect to the Company's current and former directors and employees, as does the California Labor Code. In some cases there are limits on, and exceptions to, the Company's potential indemnification liability. Prior to fiscal year 2007, the Company had not incurred any significant expense as a result of agreements of this type for at least a decade. In fiscal year 2007, in conjunction with a review of its historical stock option practices, the Company incurred \$500,000 of expense by advancing legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board authorizing such advances. In the third quarter of fiscal year 2008, the Company advanced an additional \$275,000 of expenses related to these matters. For the first nine months of fiscal year 2008, the Company advanced \$911,000. All such advances are subject to an undertaking to repay the funds to the Company in certain circumstances. The Company expects to continue to incur significant expense in connection with such advances related to the Government inquiries, the derivative and class action litigation discussed above, and other matters associated with or stemming from the circumstances underlying the March 2007 restatement of its historical financial statements to correct stock option accounting (restatement). The Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements with respect to other matters.

Note 14: Taxes

Effective at the beginning of the first quarter of fiscal year 2008, the Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

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Upon adoption and the conclusion of the initial evaluation of our uncertain tax positions (UTP) under FIN 48, the Company recorded a cumulative increase in the liability for UTP by \$2.1 million which was accounted for as a debit to retained earnings. At January 29, 2007, the total liability for UTP recorded in our balance sheet was \$4.8 million. The UTP liability is recorded as a non-current liability and reflected on the balance sheet as Accrued Taxes. During the third quarter of fiscal year 2008, the liability for UTP increased by approximately \$177,000. For the first nine months of fiscal year 2008, the UTP liability increased by approximately \$503,000.

Included in the balance of unrecognized tax benefits at October 28, 2007, are \$5.3 million of tax benefits that, if recognized, would impact the effective tax rate. With regard to the unrecognized tax benefits at October 28, 2007, the Company does not believe that it is reasonably possible that any portion of the unrecognized tax benefits will be recognized in the next twelve months.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the Consolidated Condensed Statements of Income. As of the date of adoption of FIN 48, the Company had approximately \$96,000 accrued for the payment of interest and penalties. No accrual for the payment of interest and penalties was recorded in the first nine months of fiscal year 2008.

The Company files U.S. federal, U.S. state, and foreign tax returns. In fiscal year 2005, the Internal Revenue Service completed its examination of our federal income tax returns through 2001 (fiscal year 2002). For state returns, the Company is generally not subject to income tax examinations for years prior to 1999 (fiscal year 2000). Our largest foreign tax presence is in Switzerland. Our Swiss tax filings have been examined through 2005 (fiscal year 2006). The Company is not currently under audit by any taxing jurisdiction.

Note 15: Segment Information

The Company operates in two reportable segments: Standard Semiconductor Products and Rectifier, Assembly and Other Products. The Rectifier, Assembly and Other Products segment has represented less than 10% of net sales for the last three fiscal years.

The Standard Semiconductor Products segment makes up the vast majority of overall sales and includes the power management, protection, test and measurement, advanced communications, wireless and sensing, and human input device product lines. The Rectifier, Assembly and Other Products segment includes the Company's line of assembly and rectifier devices, which are the remaining products from its original founding as a supplier into the military, aerospace and industrial equipment markets.

The accounting policies of the segments are the same as those described above and in the Company's Form 10-K for the year ended January 28, 2007 in the summary of significant accounting policies. The Company evaluates segment performance based on net sales and operating income of each segment. Management does not track segment data or evaluate segment performance on additional financial information. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of income data (below operating income).

The Company does not track or assign assets to individual reportable segments. Likewise, depreciation expense and capital additions are also not tracked by reportable segments.

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	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Standard Semiconductor Products	\$ 72,110	\$ 59,750	\$ 188,469	\$ 183,112
Rectifier, Assembly and Other Products	6,446	3,961	17,701	11,463
Net Sales	\$ 78,556	\$ 63,711	\$ 206,170	\$ 194,575

Operating Income (in thousands)

	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Standard Semiconductor Products	\$ 9,941	\$ 3,722	\$ 18,515	\$ 20,403
Rectifier, Assembly and Other Products	3,258	913	7,167	3,073
Total Operating Income	\$ 13,199	\$ 4,635	\$ 25,682	\$ 23,476

Certain corporate level expenses not directly attributable to a reportable segment are allocated to the segments based on percentage of sales. Beginning with the third quarter of fiscal year 2007, these allocated expenses include expenses associated with the Company's investigation into its historical stock option practices, the restatement of its historical financial statements, and related matters.

Included in operating income in the third quarter of fiscal years 2008 and 2007 for the Standard Semiconductor Products segment is \$403,000 and \$4.6 million, respectively, of expense associated with the investigation into the Company's historical stock option practices. For the first nine months of fiscal years 2008 and 2007, the Standard Semiconductor Products segment incurred \$2.7 million and \$6.8 million, respectively, of expense associated with the investigation into the Company's historical stock option practices.

Included in operating income for the Standard Semiconductor Products segment for the third quarters of fiscal year 2008 and 2007 are legal fees incurred by the Company in suing insurance companies to recover amounts associated with the resolution of a past customer dispute.

One end-customer that is a leading manufacturer of cellular phones and consumer equipment, and that buys products directly from the Company, accounted for approximately 16% and 12% of net sales in the third quarter of fiscal year 2008 and 2007, respectively. One of our Asian distributors accounted for approximately 18% of net sales in the second quarter of fiscal year 2008 and 13% of net sales in the third quarter of fiscal year 2007.

As of October 28, 2007, one end-customer that is a leading manufacturer of cellular phones and consumer equipment, and that buys products directly from the Company, accounted for approximately 16% of net accounts receivable and one of the Company's Asian distributors accounted for approximately 13% of net accounts receivable. As of January 28, 2007, the same Asian distributor accounted for approximately 8% of net accounts receivable. Sales to the Company's customers are generally made on open account, subject to credit limits the Company may impose, and the receivables are subject to the risk of being uncollectible.

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A summary of net external sales by region follows. The Company does not track customer sales by region for each individual reporting segment.

Sales by Region (% of net sales)

	Three Months Ended		Nine Months Ended	
	October 28 2007	October 29 2006	October 28 2007	October 29 2006
Domestic	21%	22%	18%	22%
Asia-Pacific	66%	65%	65%	64%
Europe	13%	13%	17%	14%
Total	100%	100%	100%	100%

Long-lived assets located within the United States as of October 28, 2007 and January 28, 2007 were approximately \$21.6 million and \$31.6 million, respectively. The reduction in long-lived assets was impacted primarily by the disposal of undeveloped land located in San Diego, California. Long-lived assets located outside the United States as of October 28, 2007 and January 28, 2007 was approximately \$13.5 million and \$17.2 million, respectively. Some of these assets are at locations owned or operated by the Company's suppliers. The Company has consigned certain equipment to a foundry and a packaging and test subcontractor based in China to support its specialized processes run at the foundry and to ensure a specified level of capacity over the next few years. The provision of these assets to the wafer foundry is factored into the Company's long-term pricing arrangement with the foundry for any reserved wafers it may purchase. The Company has also installed its own test equipment at some of its packaging and testing subcontractors in order to ensure a certain level of capacity, assuming the subcontractor has ample employees to operate the equipment.

The Company relies on a limited number of outside subcontractors and suppliers for the production of silicon wafers, packaging and certain other tasks. Disruption or termination of supply sources or subcontractors, due to natural disasters or other causes, could delay shipments and could have a material adverse effect on the Company. Although there are generally alternate sources for these materials and services, qualification of the alternate sources could cause delays sufficient to have a material adverse effect on the Company. Several of the Company's outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Malaysia, Singapore, the Philippines, Germany, Israel and Canada. The Company's largest source of silicon wafers is an outside foundry located in China and a significant amount of the Company's assembly and test operations are conducted by third-party contractors in Malaysia, the Philippines and China.

Note 16: Matters Related to Historical Stock Option Practices

During the third quarters of fiscal year 2008 and 2007, the Company incurred approximately \$788,000 and \$4.9 million, respectively, of expenses for legal, accounting, tax and other professional services in connection with the government inquiries, the preparation of the restated financial statements, the related derivative and class action litigation, and other matters associated with or stemming from the restatement and its underlying circumstances. These expenses in the third quarters of fiscal year 2008 and 2007 include approximately \$275,000 and \$279,000, respectively, for claims for advancement of legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board authorizing such advances. These advances are subject to an undertaking to repay the funds to the Company in certain circumstances. See Note 13 for additional information regarding indemnification.

The Company expects these expenses to continue for some time and is unable to predict the outcome of the government inquiries, the derivative and class action litigation or any of the other matters associated with or stemming from the restatement and its underlying circumstances. These matters have occupied and will continue to occupy the time and attention of management, could negatively impact the Company's business and could have a material adverse impact on the Company's financial condition, results of operations, and cash flow.

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Note 17: Subsequent Events

Accelerated Stock Buyback Program: On December 3, 2007, the Company completed its accelerated stock buyback. Under the final terms of this program, the Company acquired 9.8 million shares of its common stock for an aggregate price of \$169.4 million, which includes a \$19.4 million purchase price adjustment paid to Goldman Sachs & Co.

Customer Dispute and Related Insurance Matters: On November 26, 2007, Semtech Corporation entered into a written Settlement Agreement with National Union Fire Insurance Company of Pittsburgh, PA (National Union), under which Semtech will receive \$6,500,000 in settlement of claims brought against National Union in a lawsuit regarding insurance coverage for a customer dispute settled in March 2003. The Settlement Agreement provides for payment of the settlement in two installments in fiscal year 2009, contains mutual releases with respect to the lawsuit and underlying insurance claims, and provides for dismissal of the lawsuit.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations together with the consolidated condensed financial statements and the notes to the consolidated condensed financial statements included elsewhere in this Form 10-Q.

This discussion contains forward-looking statements. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes, projects, should, will, plans and similar words. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by the Company or any other person that our objectives or plans will be achieved or that any of our operating expectations or financial forecasts will be realized. Results could differ materially from those projected in forward-looking statements, due to factors including, but not limited to, those set forth in the Risk Factors and Quantitative and Qualitative Disclosure About Market Risk sections of this Form 10-Q and the Risk Factors section of our annual report on Form 10-K for the year ended January 28, 2007. We undertake no duty to update any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition to regarding forward-looking statements with caution, you should consider that the preparation of financial statements requires us to draw conclusions and make interpretations, judgments, assumptions and estimates with respect to factual, legal, and accounting matters. Different conclusions, interpretations, judgments, assumptions, or estimates could result in materially different results. See Note 1 to the financial statements included in this Form 10-Q.

Overview

We design, produce and market a broad range of products that are sold principally to customers in the computer, communications and industrial markets for a wide variety of end applications. Computer end market applications include notebook and desktop computers, computer graphics, and personal digital assistants (PDAs). Products within the communications market include products for set-top boxes, local area networks, metro and wide area networks, cellular phones and base stations. Industrial and other

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applications include automated test equipment (ATE), power supplies, hearing aids and other medical devices, and meter reading and factory automation systems. Our end-customers are primarily original equipment manufacturers and their suppliers, including Alcatel, Apple, Cisco, Compal Electronics, Dell, Hewlett Packard, IBM, Intel, LG Electronics, Motorola, Phonak, Quanta Computer, Samsung, Siemens, Sony and Unisys.

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Product design and engineering revenue is recognized during the period in which services are performed. We defer revenue recognition on shipment of certain products to distributors where return privileges exist until the products are sold through to end-users.

Most of our sales to customers are made on the basis of individual customer purchase orders. Many customers include liberal cancellation provisions in their purchase orders. Trends within the industry toward shorter lead-times and just-in-time deliveries have resulted in our reduced ability to predict future shipments. As a result, we rely on orders received and shipped within the same quarter for a significant portion of our sales. Sales made directly to original equipment manufacturers during the third quarter of fiscal year 2008 were 38% of net sales. The remaining 62% of net sales were made through independent distributors.

We operate our business based on two reportable segments: Standard Semiconductor Products and Rectifier, Assembly and Other Products. We evaluate segment performance based on net sales and operating income of each segment. We do not track segment data or evaluate segment performance on additional financial information. We do not track balance sheet items by individual reportable segments. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of income data (below operating income). The Standard Semiconductor Products segment makes up the vast majority of overall sales and includes our power management, protection, test and measurement, advanced communications, wireless and sensing, and human input device product lines. The Rectifier, Assembly and Other Products segment includes our line of assembly and rectifier devices, which are the remaining products from our founding as a supplier into the military and aerospace market.

Our business involves reliance on foreign-based entities. Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Malaysia, the Philippines, Germany, Singapore and Thailand. During the third quarter of fiscal year 2008, approximately 38% of our silicon, in terms of cost of finished wafers purchased, was manufactured in China. Foreign sales for the third quarter of fiscal year 2008 constituted approximately 79% of our net sales. Approximately 84% of foreign sales are to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.

Critical Accounting Policies and Estimates

During the first three quarters of fiscal year 2008, other than the adoption of FIN 48 noted below, there have been no significant changes to our critical accounting policies as compared to the previous disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year 2007 that ended on January 28, 2007.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, we evaluate and discuss with our audit committee our estimates, including, but not limited to, those related to our allowance for doubtful accounts and sales returns, inventory reserves, asset impairments and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, which together form the basis for

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making judgments about the carrying values of assets and liabilities. Our critical accounting policies and estimates do not vary between our two reportable segments. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, among others, affect the significant judgments and estimates we use in the preparation of our consolidated condensed financial statements:

Accounting for Temporary and Long-Term Investments

Our temporary and long-term investments consist of government, bank and corporate obligations. Temporary investments mature within twelve months of the balance sheet date. Long-term investments have maturities in excess of one year from the date of the balance sheet. We classify our investments as available for sale because we expect to possibly sell some securities prior to maturity. We include any unrealized gain or loss, net of tax, in comprehensive income, as detailed in Note 5 (Comprehensive Income) to the unaudited financial statements included in this Form 10-Q.

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on a combination of factors. If we are aware of a customer's inability to meet its financial obligations to us, we record an allowance to reduce the receivable to the amount we reasonably believe we will be able to collect from the customer. For all other customer receivables, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment, the size and number of certain large accounts and our historical experience. If the financial condition of our customers were to deteriorate or if economic conditions worsen, additional allowances may be required in the future.

Revenue Recognition

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. We defer revenue recognition on shipment of products to certain customers, principally distributors, where return privileges exist until these products are sold through to end-users or the return privilege lapses. The estimated deferred gross margins on these sales, where there are no outstanding receivables, are recorded on the balance sheet under the heading of Deferred Revenue. We record a provision for estimated sales returns in the same period as the related revenues are recorded. We base these estimates on historical sales returns and other known factors. Actual returns could be different from our estimates and current provisions for sales returns and allowances, resulting in future charges to earnings.

Inventory Valuation

Our inventories are stated at lower of cost or market and consist of materials, labor and overhead. We determine the cost of inventory by the first-in, first-out method. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of sales levels by product and projections of future demand. In order to state our inventory at lower of cost or market, we maintain reserves against our inventory. If future demand or market conditions are less favorable than our projections, a write-down of inventory may be required, and would be reflected in cost of goods sold in the period the revision is made.

Contingencies and Litigation

We are involved in various disputes and litigation matters as both claimant and defendant. We record any amounts recovered in these matters when collection is certain. We record liabilities for claims against us when the losses are probable and estimable. Any amounts recorded are based on reviews by outside counsel, in-house counsel and management. Actual results may differ from estimates.

Stock-Based Compensation

In fiscal years 1997 through 2006, we included in the Notes to Consolidated Financial Statements in our Annual Reports a pro forma disclosure of the impact stock options would have on net income (loss) using

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the fair value stock option expense recognition method, as allowed under Statement of Financial Accounting Standards No. 123 and using an intrinsic value method, as prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* .

A revised standard, SFAS No. 123 (revised 2004), *Share Based Payment* (SFAS 123(R)), which requires all companies to measure compensation cost for all share-based payments (including stock options) at fair value, became effective for us beginning with the first quarter of fiscal year 2007, which began on January 30, 2006. The adoption of SFAS 123(R) requires us to apply a valuation model, which includes estimates and assumptions on the rate of forfeiture and expected life of options and stock price volatility, as detailed in Note 7 (Equity Incentive Plans) to the unaudited financial statements included in this Form 10-Q. If any of the assumptions used in the valuation model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period and actual results may differ from estimates.

Goodwill and Intangible Assets

We account for goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Goodwill is recorded at the time of an acquisition and is calculated as the difference between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired.

Accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development (IPR&D). Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. The amounts and useful lives assigned to other intangible assets impact the amount and timing of future amortization, and the amount assigned to IPR&D is expensed immediately if the underlying project has not reached technological feasibility and no alternative future use exists. If the assumptions and estimates used to allocate the purchase price are not correct, or if business conditions change, purchase price adjustments or future asset impairment charges could be required.

Impairment of Goodwill and Other Intangible Assets

In accordance with SFAS 142, we test goodwill for impairment on an annual basis or more frequently if we believe indicators of impairment exist. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) any future declines in our operating results, (ii) a decline in the valuation of technology company stocks, including the valuation of our common stock, (iii) a significant slowdown in the worldwide economy and the semiconductor industry or (iv) any failure to meet the performance projections included in our forecasts of future operating results. We evaluate these assets, including purchased intangible assets deemed to have indefinite lives, on an annual basis or more frequently if indicators of impairment exist. In the process of our annual impairment review, we primarily use the income approach methodology of valuation that includes the discounted cash flow method, as well as other generally accepted valuation methodologies, to determine the fair value of the assets. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect. If our actual results, or the plans and estimates used in future impairment analysis, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges in a future period.

The Company accounts for other purchased intangible assets, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment, such as reductions in demand or significant economic slowdowns in the semiconductor industry, are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted

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market prices and/or (ii) discounted expected future cash flows utilizing a discount rate consistent with the guidance provided in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*. Impairment is based on the excess of the carrying amount over the fair value of those assets.

In-Process Research and Development

As a result of the acquisition of XEMICS, IPR&D expense totaled \$4.0 million in fiscal year 2006. The amount allocated to IPR&D was determined through established valuation techniques used in the high technology industry and was expensed upon acquisition as it was determined that the underlying project had not reached technological feasibility and no alternative future uses existed. In accordance with SFAS No. 2, *Accounting for Research and Development Costs*, as clarified by FIN No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, an Interpretation of FASB Statement No. 2, amounts assigned to IPR&D meeting the above-stated criteria were charged to expense as part of the allocation of the purchase price.

The fair value of the acquired IPR&D was determined using the income approach. Under this approach, the expected future cash flows for the project under development are estimated and discounted to their net present value at an appropriate risk-adjusted rate of return. Significant factors considered in the calculation of the rate of return are the weighted-average cost of capital and return on assets, as well as the risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. The unique technological innovations, the existence and reliance on core technology, the existence of any alternative future use or current technological feasibility and the complexity, cost and time to complete the remaining development were all considered. Future cash flows were estimated based on forecasted revenue and costs, taking into account product life-cycles, market penetration and growth rates.

The following table summarizes the key assumptions of the acquired IPR&D project as of the date of the XEMICS acquisition:

Development project	Wireless & sensing chips and protocols	
Average estimated percent complete		23%
Average estimated time to complete		1.5 years
Estimated cost to complete (in millions)	\$	3.9
Risk adjusted discount rate		25%
IPR&D (in millions)	\$	4.0

As of the acquisition date, the cost to complete development was estimated to be \$3.9 million and revenue related to the acquired IPR&D was projected to begin in the fourth quarter of fiscal year 2007. As a result of a shift in strategic market positioning, R&D priorities were revised and related resources were reallocated. This shift resulted in the cancellation of some development activities and a reduced allocation of development resources to others, resulting in a delay in projected release to market of certain IPR&D related products. Revenue related to the acquired IPR&D is now projected to begin late in fiscal year 2008. This shift in priorities is expected to reduce overall cash flow from IPR&D related projects by approximately \$2.4 million over the next three years which will be partially offset by reduced development costs related to the cancelled development activities. The assumptions consist primarily of expected completion dates, estimated cost to complete and revenue and expense projections for the product once it enters the market.

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Accounting for Income Taxes

We adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48) in the first quarter of fiscal year 2008. See Note 14 (Taxes) to the unaudited financial statements included in this Form 10-Q for further discussion.

As part of the process of preparing our consolidated condensed financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated condensed balance sheet. We must assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Generally, to the extent we change the valuation allowance in a period, the change is recorded through the tax provision in the statement of operations. If a valuation allowance relates to benefits from stock option exercise activity, any adjustment to the valuation allowance would be recorded to paid-in-capital in the period of the adjustment. Any release of a valuation allowance established against a pre-acquisition XEMICS net operating loss carryforward will be recorded to goodwill. Management periodically evaluates our deferred tax assets to assess whether it is likely that the deferred tax assets will be realized.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant management estimates are required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax impact is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. As a result of the adoption of FIN 48 in the first quarter of fiscal year 2008, we recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, a material effect on our income tax provision and net income in the period or periods for which that determination is made could result.

Under SFAS 123(R), the income tax effects of share-based payments are recognized for financial reporting purposes only if such awards are expected to result in a tax deduction. SFAS 123(R) prohibits recognition of a deferred tax asset for an excess tax benefit (that is, a tax benefit that exceeds the amount of compensation cost recognized for the award for financial reporting purposes) that has not been realized. In determining when an excess tax benefit is realized, we have elected to follow the ordering provision of the tax law.

In addition to the risks to the effective tax rate discussed above, the effective tax rate reflected in forward-looking statements is based on current enacted tax law. Significant changes in enacted tax law could materially affect these estimates.

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The following table sets forth, for the periods indicated, our statements of operations data expressed as a percentage of revenues.

	Three Months Ended		Nine Months Ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Sales	45.4%	45.8%	45.1%	44.6%
Gross Profit	54.6%	54.2%	54.9%	55.4%
Operating costs and expenses:				
Selling, general & administrative	22.6%	31.3%	26.1%	27.0%
Product development & engineering	14.3%	15.1%	15.4%	15.7%
Acquisition related write-offs and amortization	0.4%	0.4%	0.4%	0.5%
Insurance related legal expenses/(settlements)	0.5%	0.1%	0.4%	0.2%
Total operating costs and expenses	37.8%	46.9%	42.4%	43.3%
Operating income	16.8%	7.3%	12.5%	12.1%
Interest and other income, net	3.9%	5.5%	6.0%	4.9%
Income before taxes	20.7%	12.8%	18.4%	16.9%
Provision for taxes	0.4%	2.8%	2.5%	3.4%
Net income	20.3%	10.0%	16.0%	13.4%

Comparison of the Three Months Ended October 28, 2007 and October 29, 2006

We report on the basis of 52 and 53 week periods and end our fiscal year on the last Sunday in January. All quarters consist of 13 weeks, except for one 14-week quarter in 53-week years. The third quarters of fiscal years 2008 and 2007 were each made up of 13 weeks.

Net Sales. Net sales for the third quarter of fiscal year 2008 were \$78.6 million, an increase of 23% compared to \$63.7 million for the third quarter of fiscal year 2007. Revenue growth was driven by end application demand for our power products sold into cellular phone and mobile computing applications, continued strength in protection device sales into a diverse cross section of end markets and robust discrete device sales into the industrial and military market segment. This strength was offset by weak sales into the ATE end-market.

Our estimates of sales by major end-markets are detailed below:

End-Market

(% of net sales)

	Three Months Ended	
	October 28, 2007	October 29, 2006
Computer	24%	24%
Communications	42%	35%
Industrial/Other	34%	41%

Total

100%

100%

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Standard Semiconductor Products represented 92% of net sales in the third quarter of fiscal year 2008, while 8% were represented by the Rectifier, Assembly and Other Products segment. Sales of our Standard Semiconductor Products segment were 94% of net sales in the third quarter of fiscal year 2007 and Rectifier, Assembly and Other Products sales were 6%. Sales as a percentage of total net sales of Standard Semiconductor Products remained flat in the third quarter of fiscal year 2008 as compared to the prior year period. Sales of Rectifier, Assembly and Other Products, which are mostly sold into military and industrial applications (part of the end-market of industrial/other), increased 63% in the third quarter of fiscal year 2008, as compared to the prior year period, due to continued surge in demand from specific industrial and military customers. These products are older technology products and have a very limited customer base.

Net Sales by Reportable Segment

(in thousands)

	Three Months Ended October 28, 2007		Three Months Ended October 29, 2006		Change
Standard Semiconductor Products	\$ 72,110	92%	\$ 59,750	94%	21%
Rectifier, Assembly and Other Products	6,446	8%	3,961	6%	63%
Net sales	\$ 78,556	100%	\$ 63,711	100%	23%

Gross Profit. Gross profit for the third quarter of fiscal year 2008 was \$42.9 million, compared to \$34.5 million for the prior year period. The increase in gross profit was driven by a 23% increase in sales and a flat overall gross margin between the prior year's third quarter and that of the third quarter of fiscal year 2008.

The improvement in gross margins was largely related to the increase in total sales for the corporation coupled with lower inventory reserve requirements in the third quarter of fiscal year 2008 for excess and obsolete inventories relating to power management products. The higher levels of reserves for excess and obsolete inventories in prior periods related to inventory builds in support of customer platforms, primarily within the power management group, that never materialized. In the third quarter of fiscal year 2008, inventory levels were better aligned with customer demand, resulting in a significantly lower reserve requirement. Margins for the third quarter of fiscal year 2008 were negatively impacted by product mix, as the company sold a higher mix of lower margin computing products coupled with the decline in total sales into the ATE end market which has historically had gross margins above the corporate average.

Operating Costs and Expenses. Operating costs and expenses were \$29.7 million, or 38% of net sales in the third quarter of fiscal year 2008. Operating costs and expenses for the third quarter of fiscal year 2007 were \$29.9 million, or 47% of net sales. Operating costs and expenses in the third quarters of fiscal year 2008 and fiscal year 2007 were impacted by \$4.0 million and \$3.8 million of pre-tax expense, respectively, associated with stock-based compensation.

Operating Costs and Expenses

(in thousands)

	Three Months Ended October 28, 2007		Three Months Ended October 29, 2006		Change
Selling, general and administrative	\$ 17,764	23%	\$ 19,952	31%	-11%
Product development and engineering	11,206	14%	9,628	15%	16%
Acquisition related costs	276	0%	276	1%	0%
Insurance related legal costs	416	1%	32	0%	1200%
Total operating costs and expenses	\$ 29,662	38%	\$ 29,888	47%	-1%

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Operating Income. Operating income was \$13.2 million in the third quarter of fiscal year 2008, compared to \$4.6 million in the third quarter of fiscal year 2007. Operating income was favorably impacted by relatively flat gross margins on higher net sales and a slight decrease in operating expenses.

We evaluate segment performance based on net sales and operating income of each segment. Detailed below is operating income by reportable segment.

Operating Income by Reportable Segment

(in thousands)

	Three Months Ended October 28, 2007		Three Months Ended October 29, 2006		Change
Standard Semiconductor Products	\$ 9,941	75%	\$ 3,722	80%	167%
Rectifier, Assembly and Other Products	\$ 3,258	25%	\$ 913	20%	257%
Total operating income	\$ 13,199	100%	\$ 4,635	100%	185%

Operating income in the third quarter of fiscal year 2008 for the Standard Semiconductor Products segment jumped from the third quarter of fiscal year 2007 as a result of higher net sales, higher gross margins and offset by slightly higher operating expenses. In the third quarter of fiscal year 2008, the Rectifier, Assembly and Other Products segment realized operating margins in excess of our corporate average as a result of substantially higher net sales, improved gross margins driven by better absorption of manufacturing overhead, and greater leverage on operating expenses.

Interest and Other Income, Net. Net interest and other income was \$3.1 million in the third quarter of fiscal year 2008. Interest and other income, net includes interest income from investments and other items. It also includes the impact of changes in the value of foreign currencies held. Net interest and other income in the third quarter of fiscal year 2007 was \$3.5 million. The decrease is primarily attributable to interest income decreasing from \$3.5 million in the third quarter of fiscal year 2007 to \$3.3 million in the third quarter of fiscal year 2008.

Provision for Taxes. Provision for income taxes was \$0.3 million for the third quarter of fiscal year 2008, compared to \$1.8 million in the third quarter of fiscal year 2007. The effective tax rate for the third quarter of fiscal year 2008 was 1.7% and for the third quarter of fiscal year 2007 was 22.1%. There are several factors that can cause our effective tax rate to vary either higher or lower, including variations in income, the source of that income, exchange rates, the geographical sales mix and other factors. In the third quarter of fiscal year 2008, the tax rate was favorably impacted by a beneficial shift in regional income and favorable tax treatment in Switzerland due to the weakening US dollar in relation to the Swiss Franc.

Comparison of the nine Months Ended October 28, 2007 and October 29, 2006

We report on the basis of 52 and 53 week periods and end our fiscal year on the last Sunday in January. All quarters consist of 13 weeks, except for one 14-week quarter in 53-week years. The first nine months of fiscal years 2008 and 2007 were each made up of 39 weeks.

Net Sales. Net sales for the first nine months of fiscal year 2008 were \$206.2 million, an increase of 6% compared to \$194.6 million for the first nine months of fiscal year 2007. The increase in sales was driven by broad based strength in power management and protection sales largely into computer and cell phone applications. In addition, discrete devices, servicing the industrial and military market segments, continued to experience strong sales growth in the first nine months of fiscal year 2008.

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Our estimate of sales by major end-markets is detailed below:

End-Market

(% of net sales)

	Nine Months Ended	
	October 28, 2007	October 29, 2006
Computer	22%	24%
Communications	40%	38%
Industrial/Other	38%	38%
Total	100%	100%

Standard Semiconductor Products represented 91% of net sales in the first nine months of fiscal year 2008, while 9% were represented by the Rectifier, Assembly and Other Products segment. Sales of our Standard Semiconductor Products segment were 94% of net sales in the first nine months of fiscal year 2007 and Rectifier, Assembly and Other Products sales were 6%. Sales of Standard Semiconductor Products increased 3% in the first nine months of fiscal year 2008 as compared to the prior year period. Sales of Rectifier, Assembly and Other Products increased 54% in the first nine months of fiscal year 2008 as compared to the prior year period.

Net Sales by Reportable Segment

(in thousands)

	Nine Months Ended October 28, 2007		Nine Months Ended October 29, 2006		Change
Standard Semiconductor Products	\$ 188,469	91%	\$ 183,112	94%	3%
Rectifier, Assembly and Other Products	\$ 17,701	9%	\$ 11,463	6%	54%
Net sales	\$ 206,170	100%	\$ 194,575	100%	6%

Gross profit for the first nine months of fiscal year 2008 was \$113.1 million, compared to \$107.8 million for the first nine months of fiscal year 2007. The improvement in gross profit was positively impacted by significantly higher sales. Gross profit for the current fiscal year was also favorably impacted by lower inventory reserve requirements for excess and obsolete inventories for power management products. The higher level of reserves for excess and obsolete inventories in prior periods related to inventory builds in support of customer platforms that never materialized. In the third quarter of fiscal year 2008, inventory levels were better aligned with customer demand, resulting in a significantly lower reserve requirement. Margins for the first nine months of fiscal year 2008 were negatively impacted by higher volume sales of lower margin products coupled with the decline in total sales into the ATE end market which has historically had gross margins above the corporate average.

We have experienced long-term price reductions in our manufacturing costs, in part due to our outsourcing of most manufacturing functions. However, declines in the average selling prices of our parts, which are typical in the semiconductor industry, tend to offset much of the manufacturing cost savings. Our gross margin is most impacted by the mix of products used in our customer's particular end-applications.

Operating Costs and Expenses. Operating costs and expenses for the first nine months of fiscal year 2008 were \$87.4 million or 42% of net sales compared to \$84.3 million or 43% of net sales for the first nine months of fiscal year 2007. Operating costs and expenses for the first nine months of fiscal year 2008 and fiscal year 2007 were impacted by \$10.4 million of pre-tax expense and \$12.0 million of pre-tax expense, respectively, associated with stock-based compensation.

Table of ContentsOperating Costs and Expenses

(in thousands)

	Nine Months Ended October 28, 2007		Nine Months Ended October 28, 2006		Change
Selling, general and administrative	\$ 53,888	26%	\$ 52,588	27%	2%
Product development and engineering	31,792	16%	30,519	16%	4%
Acquisition related costs	827	0%	916	0%	-10%
Insurance related legal costs	915	0%	298	0%	207%
Total operating costs and expenses	\$ 87,422	42%	\$ 84,321	43%	4%

Operating Income. Operating income was \$25.7 million in the first nine months of fiscal year 2008, up from operating income of \$23.5 million in the first nine months of fiscal year 2007. Operating income was favorably impacted by a 6% increase in net sales and an unfavorable increase of 4% in operating expenses.

We evaluate segment performance based on net sales and operating income of each segment. Detailed below is operating income by reportable segment.

Operating Income by Reportable Segment

(in thousands)

	Nine Months Ended October 28, 2007		Nine Months Ended October 29, 2006		Change
Standard Semiconductor Products	\$ 18,515	72%	\$ 20,403	87%	-9%
Rectifier, Assembly and Other Products	\$ 7,167	28%	\$ 3,073	13%	133%
Total operating income	\$ 25,682	100%	\$ 23,476	100%	9%

For the first nine months of fiscal year 2008, operating income for the Standard Semiconductor Products segment declined due to lower sales, lower gross margins and higher operating expenses.

Interest and Other Income, Net. Net interest and other income was \$12.3 million in the first nine months of fiscal year 2008. Net interest and other income in the first nine months of fiscal year 2007 was \$9.6 million.

Interest and other income, net includes interest income from investments and other items. It also includes the impact of changes in the value of foreign currencies held. The increase in net interest and other income in the first nine months of fiscal year 2008 resulted mostly from higher interest income due to higher rates of return on investments and gains on sale of fixed assets.

Provision for Taxes. Provision for income taxes was \$5.1 million for the first nine months of fiscal year 2008, compared to \$6.5 million in the first nine months of fiscal year 2007. The effective tax rate for the first nine months of fiscal year 2008 was 13% and for the first nine months of fiscal year 2007 was 20%. There are several factors which can cause our effective tax rate to vary either higher or lower, including variations in income, the source of that income, exchange rates, the geographical sales mix and other factors. In the current fiscal year, the tax rate was favorably impacted by a beneficial shift in regional income and favorable tax treatment in Switzerland due to the weakening US dollar in relation to the Swiss Franc.

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Liquidity and Capital Resources

We evaluate segment performance based on net sales and operating income of each segment. We do not track segment data or evaluate segment performance on additional financial information. As such, there are not separately identifiable segment assets and liabilities.

As of October 28, 2007, we had working capital of \$288.4 million, compared with \$325.4 million as of January 28, 2007. The ratio of current assets to current liabilities as of October 28, 2007 was 9.0 to 1 compared to 11.7 to 1 as of January 28, 2007.

The combined amounts of cash and cash equivalents, temporary investments and long-term investments were \$265.8 million as of October 28, 2007, down from \$338.5 million as of January 28, 2007. We have no long-term debt and had \$7.7 million of other long-term liabilities as of October 28, 2007. The combined amount of cash and cash equivalents, temporary investments and long-term investments would generally be available for any capital or liquidity needs.

Operating Cash Flows. Cash provided by operating activities was \$48.5 million for the first nine months of fiscal year 2008 compared to \$58.5 million for the first nine months of fiscal year 2007. Net operating cash flows were impacted by non-cash charges for depreciation and amortization of \$8.0 million and \$8.7 million in the first nine months of fiscal years 2008 and 2007, respectively.

In addition to depreciation and amortization, operating cash flows in the first nine months of fiscal year 2008 were positively impacted by net income of \$32.9 million, the depreciation and amortization noted above, stock-based compensation of \$10.6 million, the tax benefit of stock-based compensation of \$7.3 million, offset by \$4.7 million of excess tax benefits, \$1.5 million of gain on sale of property, plant and equipment, and \$4.2 million due to changes in assets and liabilities, the largest being an increase in accounts payable of \$6.7 million.

Operating cash flows in the first nine months of fiscal year 2007 were positively impacted primarily by net income of \$26.5 million, the depreciation and amortization noted above, and stock-based compensation of \$12.2 million. The positive impact of these items was offset by various changes in assets and liabilities, the largest being increase of \$3.1 million in accounts payables and accrued liabilities.

Cash Flows Related to Investing Activities. Investing activities provided \$139.4 million in the first nine months of fiscal year 2008 compared to \$4.4 million used in the prior year period. Major investing activities for both periods consist of changes in investments and the purchase and sale of property, plant, and equipment. Purchases of property, plant, and equipment for the first nine months of fiscal year 2008 were \$2.0 million and proceeds from the sale of property, plant, and equipment were \$10.1 million. The netting of the purchases of available-for-sale investments and the proceeds from the sale and maturities of available-for-sale investments reflect net cash provided of \$131.4 million and spent \$3.3 million for the first nine months of 2008 and 2007, respectively.

Cash Flows Related to Financing Activities. Financing activities used \$129.6 million during the first nine months of fiscal year 2008 and \$9.6 million in the prior year period. Cash provided by financing activities for the first nine months of fiscal year 2008 include \$8.1 million from the exercise of stock options and \$4.7 million from the excess tax benefit received on stock options partially offset by shares surrendered by an employee to settle tax withholding obligations. The Company used \$150.0 million to purchase common stock and received \$ 7.7 million for re-issuance of treasury stock. Cash used by financing activities for the first nine months of fiscal year 2007 reflect \$3.1 million of proceeds from stock option exercises and the re-issuance of treasury stock, \$1.5 million from the excess tax benefit received on stock options, offset by \$14.2 million used to repurchase stock pursuant to a stock buyback program.

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In order to develop, design, and manufacture new products, we have spent significant funds for this purpose during the past five years. We expect to continue to spend significant funds aimed at developing new products including the hiring of design and applications engineers and the purchase of test equipment. We intend to invest in those areas that have shown potential to be viable and profitable market opportunities. Certain of these expenditures, particularly the hiring of design engineers, do not generate significant financial returns in the short term. We plan to finance these expenditures with cash generated by operations.

A significant amount of our capital resources, and the related liquidity they represent, are held by our foreign subsidiaries. As of October 28, 2007, approximately \$144.6 million of cash, cash equivalents, and short-term investments were held in Switzerland, compared to \$108.7 million held in Switzerland as of January 28, 2007. Repatriation of these funds for use in domestic operations could have negative tax consequences.

Purchases of new capital equipment were made to expand our test capacity and support other engineering functions, including product design and qualification. These expenditures were funded from cash provided by operations and cash reserves.

In May 2007, we entered into an accelerated stock repurchase agreement with Goldman Sachs whereby we paid approximately \$150 million dollars from domestic cash in exchange for approximately 9.8 million shares of our common stock. See Note 8 (Stock Repurchase Program and Accelerated Stock Buyback Program; Treasury Shares) and Note 17 (Subsequent Events) to the unaudited financial statements included in this Form 10-Q.

We believe that operating cash flows together with cash reserves are sufficient to fund operations and capital expenditures for the foreseeable future.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as those arrangements are defined by the SEC, that are reasonably likely to have a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

We do not have any unconsolidated subsidiaries or affiliated entities. We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support, engage in leasing, hedging, research and development services, or other relationships that expose us to liability that is not reflected on the face of the financial statements.

Contractual Obligations

There were no material changes during the third quarter of fiscal year 2008. However, refer to Note 8 (Stock Repurchase Program and Accelerated Stock Buyback Program; Treasury Shares) to the unaudited financial statements included in this Form 10-Q for a discussion regarding the \$150 million accelerated stock repurchase agreement that was entered into in May 2007 under which the Company could have an obligation to pay a purchase price adjustment in cash or in shares of its common stock.

Inflation

Inflationary factors have not had a significant effect on our performance over the past several years. A significant increase in inflation would affect our future performance.

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Available Information

General information about us can be found on our website at www.semtech.com. The information on our website is for informational purposes only and should not be relied on for investment purposes. The information on our website is not incorporated by reference into this Form 10-Q and should not be considered part of this or any other report filed with the Securities and Exchange Commission (SEC).

We make available free of charge, either by direct access on our website or by a link to the SEC website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Our reports filed with, or furnished to, the SEC are also available directly at the SEC s website at www.sec.gov.

Financial statements and the related reports of our independent public accountants, earnings press releases, and similar communications issued prior to July 20, 2006 should no longer be relied upon and have been superseded by the information contained in the Form 10-K/A for fiscal year 2006 filed on March 29, 2007 (Form 10-K/A) and reports filed with the SEC concurrently with and subsequent to the Form 10-K/A.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to a variety of market risks, such as the foreign exchange and interest rate risks that are detailed below. Many of the factors that can have an impact on our market risk are external to the company, and so we are unable to fully predict them.

For additional quantitative and qualitative disclosures about market risk affecting us, see item 7A of the Company s Form 10K for fiscal year 2007 that ended on January 30, 2007.

Foreign Currency Risk

As a global enterprise, we face exposure to adverse movements in foreign currency exchange rates and we could experience currency gains or losses. Because of the relatively small size of each individual currency exposure, we generally do not use forward contracts to mitigate foreign currency exposures. Our foreign currency exposures may change over time as the level of activity in foreign markets grows and could have an adverse impact upon our financial results.

Certain of our assets, including certain bank accounts and accounts receivable, exist or have existed, in non U.S. dollar-denominated currencies, which are sensitive to foreign currency exchange rate fluctuations. The non U.S. dollar-denominated currencies are principally the Swiss Franc, Euro, and British Pounds Sterling. Additionally, certain of our current and long-term liabilities are denominated principally in Swiss Francs and British Pounds Sterling currency, which are also sensitive to foreign currency exchange rate fluctuations.

Substantially all of our foreign sales are denominated in United States dollars. Currency exchange fluctuations in countries where we do business could harm our business by resulting in pricing that is not competitive with prices denominated in local currencies.

Interest Rate and Market Risk

As of October 28, 2007, we had no long-term debt outstanding. We do not currently hedge any potential interest rate exposure.

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Interest rates affect our return on excess cash and investments. As of October 28, 2007, we had \$220.9 million of cash and cash equivalents and \$44.9 million of temporary and long-term investments. A majority of our cash and cash equivalents and investments generate interest income based on prevailing interest rates. A significant change in interest rates would impact the amount of interest income generated from our excess cash and investments. It would also impact the market value of our investments.

Our investments are subject to market risk, primarily interest rate and credit risk. Our investments are managed by a limited number of outside professional managers subject to investment guidelines set by us. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting our investments to high quality debt instruments with relatively short-term maturities.

Commodity Risk

We are subject to risk from fluctuating market prices of certain commodity raw materials, particularly gold, that are incorporated into our end products or used by our suppliers to process our end products. Increased commodity prices are passed on to us in the form of higher prices from our suppliers, either in the form of general price increases or commodity surcharges. Although we generally deal with our suppliers on a purchase order basis rather than on a long-term contract basis, we generally attempt to obtain firm pricing for volumes consistent with planned production. Our gross margins may decline if we are not able to increase selling prices of our products or obtain manufacturing efficiencies to offset the increased cost. We do not enter into formal hedging arrangements to mitigate against commodity risk.

Stock Market Risks

In May 2007, we entered into an accelerated stock repurchase agreement with Goldman Sachs whereby we paid approximately \$150 million dollars to Goldman Sachs in exchange for 9,836,066 shares of our common stock. See Note 8 (Stock Repurchase Program and Accelerated Stock Buyback Program; Treasury Shares) to the unaudited financial statements included in this Form 10-Q for additional information regarding the agreement under which we could have an obligation to pay a purchase price adjustment based on changes in the stock price during the program and regarding the steps taken to mitigate a portion of this risk.

ITEM 4. Controls and Procedures

Disclosure Controls

We carried out, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective to ensure (a) that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) that information required to be disclosed is accumulated and communicated to management to allow timely decisions regarding disclosure.

Changes in Internal Controls

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during the fiscal quarter ended October 28, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Information about legal proceedings is set forth under Note 13 (Legal Matters) to the unaudited financial statements included in this Form 10-Q.

ITEM 1A. Risk Factors

During the period covered by this quarterly report, the risk factors associated with our business have not significantly changed as compared to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended January 28, 2007. Also see Management's Discussion and Analysis of Financial Condition and Results of Operations in this report for a discussion of certain factors that may affect our future performance.

You should carefully consider and evaluate all of the information in this Form 10-Q and the risk factors set forth in our Form 10-K for the fiscal year ended January 28, 2007. The risks in the Form 10-K are not the only ones facing our Company. Additional risks not now known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business could be materially harmed. If our business is harmed, the trading price of our common stock could decline.

This Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance, and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes, projects, should, will, plans and similar words. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by the Company or any other person that our objectives or plans will be achieved or that any of our operating expectations or financial forecasts will be realized. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described in our most recently filed Form 10-K, in our other filings with the SEC, and in material incorporated herein and therein by reference. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

The Company did not make any sales of unregistered securities during the third quarter of fiscal year 2008.

Issuer Purchase of Equity Securities

This table provides information with respect to purchases by the Company of shares of common stock during the third quarter of fiscal year 2008.

Table of ContentsIssuer Purchases of Equity Securities

Fiscal Month/Year	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Program (1)
August 2007 (07/30/07-08/26/07)				50.3 million
September 2007 (08/27/07-09/23/07)				50.3 million
October 2007 (09/24/07-10/28/07)				50.3 million

- (1) In the first quarter of fiscal year 2005, the Company announced that the Board of Directors authorized the repurchase of up to \$50 million of the Company's common stock from time to time through negotiated or open market transactions (the 2004 Program). In the second quarter of fiscal year 2006, the Company announced that it had exhausted the initial authorization and that its Board of Directors had approved an additional \$50.0 million for the 2004 Program. In the second quarter of fiscal year 2007, the Company announced that its Board of Directors again had authorized increasing the existing buyback program by an additional \$50.0 million, bringing the total authorized under the program to \$150 million. In May 2007, the Company entered into an accelerated stock repurchase agreement whereby we paid approximately \$150 million dollars to Goldman Sachs in exchange for approximately 9.8 million shares of the Company's common stock. Average Price Paid per Share information will be available once the Goldman Sachs program ends. See Note 8 (Stock Repurchase Program and Accelerated Stock Buyback Program; Treasury Shares) to the unaudited financial statements included in this Form 10-Q. The Goldman Sachs program is in addition to the 2004 Program. During the third quarter of fiscal year 2008 there were no purchases under the 2004 Program. The 2004 Program does not have an expiration date.
- (2) The table does not include shares surrendered to the Company in connection with the cashless exercise of stock options by employees and directors or shares surrendered to the Company to cover tax withholding upon vesting of restricted stock.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None

Table of Contents**ITEM 6. Exhibits**

Documents that are not physically filed with this report are incorporated herein by reference to the location indicated.

Exhibit No.	Description	Location
10.1	Settlement Agreement between National Union Fire Insurance Company of Pittsburgh, PA and Semtech Corporation	Exhibit 10.1 to the Company's current report on Form 8-K filed on November 27, 2007
10.2	Form of Stock Option Cancellation Letter sent to Certain Executive Officers, including Certain Named Executive Officers	
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934 as amended.	
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934 as amended.	
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (As set forth in Exhibit 32.1 hereof, Exhibit 32.1 is being furnished and shall not be deemed filed .)	
32.2	Certification of the Chief Financial Officer Pursuant 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (As set forth in Exhibit 32.2 hereof, Exhibit 32.2 is being furnished and shall not be deemed filed .)	

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEMTECH CORPORATION
Registrant

Date: December 6, 2007

/s/ Mohan R. Maheswaran